

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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	:	
In re	:	
	:	Chapter 11 Case No.
	:	
SEARS HOLDINGS CORPORATION, et al.,	:	18-23538 (RDD)
Debtors.¹	:	
	:	(Jointly Administered)
	:	
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**DECLARATION OF JEFF BUTZ IN SUPPORT OF TRANSFORM HOLDCO LLC'S
REPLY BRIEF IN FURTHER SUPPORT OF THE ADVERSARY COMPLAINT**

I, Jeff Butz, declare under penalty of perjury as follows:

1. I respectfully submit this declaration ("Declaration") in support of Transform Holdco LLC's ("Transform") Reply Brief in Further Support of the Adversary Complaint.

2. I have worked for Sears Holdings Corporation ("SHC") for over thirty years. Presently, I am the Divisional Vice President (DVP) of Accounting Services at Transform. I have held this position at Transform and SHC since February 2013, first as a Director, then as a Senior Director, and now as a Divisional Vice President. I have held this position during the

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are as follows: Sears Holdings Corporation (0798); Kmart Holding Corporation (3116); Kmart Operations LLC(6546); Sears Operations LLC(4331); Sears, Roebuck and Co. (0680); Service Live Inc. (6774); A&E Factory Service, LLC (6695); A&E Home Delivery, LLC (0205); A&E Lawn & Garden, LLC (5028); A&E Signature Service, LLC (0204); FBA Holdings Inc. (6537); Innovel Solutions, Inc. (7180); Kmart Corporation (9500); Max Serv, Inc. (7626); Private Brands, Ltd. (4022); Sears Development Co. (6028); Sears Holdings Management Corporation (2148); Sears Home & Business Franchises, Inc. (6742); Sears Home Improvement Products, Inc. (8591); Sears Insurance Services, L.L.C. (7182); Sears Procurement Services, Inc. (2859); Sears Protection Company (1250); Sears Protection Company (PR) Inc. (4861); Sears Roebuck Acceptance Corp. (0535); Sears, Roebuck de Puerto Rico, Inc. (3626); SYW Relay LLC (1870); Wally Labs LLC (None); Big Beaver of Florida Development, LLC (None); California Builder Appliances, Inc. (6327); Florida Builder Appliances, Inc. (9133); KBL Holding Inc. (1295); KLC, Inc. (0839); Kmart of Michigan, Inc. (1696); Kmart of Washington LLC (8898); Kmart Stores of Illinois LLC (8897); Kmart Stores of Texas LLC (8915); My Gofer LLC (5531); Sears Brands Business Unit Corporation (4658); Sears Holdings Publishing Company, LLC. (5554); Sears Protection Company (Florida), L.L.C. (4239); SHC Desert Springs, LLC (None); SOE, Inc. (9616); Star West, LLC (5379); STI Merchandising, Inc. (0188); Troy Coolidge No. 13, LLC (None); BlueLight.com, Inc. (7034); Sears Brands, L.L.C. (4664); Sears Buying Services, Inc. (6533); Kmart.com LLC (9022); SHC Licensed Business LLC (3718); SHC Promotions LLC (9626); and Sears Brands Management Corporation (5365).

pendency of these chapter 11 cases and the sale of substantially all of the Debtors' assets in a Section 363 sale (the "Transaction") to ESL Investments, LLC ("ESL"). In my current position, I am responsible for managing accounting services for Transform, leading a team of over fifty associates and managing Transform's relationship with an offshore partner providing accounting services to Transform.

3. As the DVP of Accounting Services at Transform, I devoted time and attention to the Debtors' sale of Specified Receivables through the Transaction, as set forth in the certain Asset Purchase Agreement between Transform and Debtors, dated January 17, 2019, as amended (the "APA").

4. Except as otherwise indicated, all statements in this Declaration are based upon my personal knowledge. If called to testify, I would testify competently to each of the facts set forth in this Declaration.

5. On or about early January 2019, I provided accounting data to the Debtors about certain categories of receivables that were not included in ESL's December 28 going concern bid and that therefore remained available for purchase. These data were pulled from SHC's end-of-November balance sheet and portions were incorporated into a January 6, 2019 presentation to Transform that set forth a preliminary schedule of over 40 categories of assets that were available for purchase. See Exhibit A, attached hereto, which is a true and correct copy of the January 6, 2019 presentation. It is my understanding that the accounting entries included in the Debtors' preliminary schedule formed the basis for Annex 11 of the APA, which set forth the Specified Receivables that Debtors would deliver to Transform at Closing.

6. The January 6 presentation included a category entitled "All Other Receivables," with a value of \$30 million. This category, which was included with the same value in Annex

11, was a composite that included certain receivables and other miscellaneous accounting entries that were not included elsewhere in the presentation. Based on my reconciliation of these schedules to the actual Sears Holdings balance sheets, I determined that these accounting entries included \$20.3 million of specific general ledger accounts and \$9.3 million of miscellaneous small accounts for a total of \$29.7 million which rounds to \$30.0 million per the schedule. However, this category "All Other Receivables" did not include two categories of accounting entries from SHC's end-of-November balance sheet entitled "Open/Unidentified Items" and "Excluded." These categories included (among other things) certain accounting adjustments and other prepaid items written off over a period of time, which were not treated as an accounts receivables collectible from third parties.

7. On February 5, 2019, the Debtors sent Transform an updated spreadsheet of the totals for each of the Specified Receivables categories based on the end-of-December balance sheet. See Friedmann Decl., Ex. K (E-Mail attaching February 5, 2019 Specified Receivables spreadsheet). That February 5 spreadsheet indicated that from the January 6 presentation, which was based on the end-of-November balance sheet, to the February 5 spreadsheet, which was based on the end-of-December balance sheet, the amount reflected in the All Other Receivables category increased from \$30 million to \$63 million. Approximately \$12.8 million of this increase is attributable to the fact that four categories included in the January 6 presentation and Annex 11 (09987 Sears One Card Clearance; 08500 Finance Related Exp; Parts Direct; and Service Contracts Pa) were aggregated into the All Other Receivables category in the February 5 spreadsheet.

8. SHC maintained a spreadsheet that tracked receivables broken down by ledger account and end-of-month actuals. The spreadsheet shows that the only way to account for the

substantial remainder of the increase in the All Other Receivables category from the January 6 presentation and Annex 11 to the February 5 spreadsheet is if the Debtors included the Open/Unidentified Items and Excluded categories in the latter but withheld them from the former. In particular, the receivables spreadsheet indicates that the end-of-December balance for these two categories totaled approximately \$23.3 million. While the Debtors indicate that the All Other Receivables category increased by \$33 million from the end of November to the end of December, only \$10 million can be explained by changes in specific accounts that were included in All Other Receivables in the January 6 presentation or the aggregation of other accounts into the All Other Receivables balance. The remaining \$23 million increase can only be explained by inclusion of the Open/Unidentified Items and Excluded categories that were excluded from the January 6 presentation and Annex 11. See Exhibit B, attached hereto, which is a true and correct copy of the receivables spreadsheet.

9. Debtors purport to have delivered \$292 million in Specified Receivables at Closing, which included over \$67 million in respect of the All Other Receivables category. Tavakoli Decl., Ex. B. In this case, the four categories of receivables that were aggregated in the February 5 presentation were again disaggregated, meaning that the All Other Receivables category (excluding these aggregated accounts) increased by \$16.8 million from the amounts shown in the February 5 presentation to the amounts Debtors purport to have delivered at Closing. After the Closing, I conducted an analysis to reconstruct what the Debtors included in the All Other Receivables category to achieve these increases. To do so, I pulled the receivables balance from the end-of-January balance sheet and manually identified the relevant accounting entries that Debtors included in the All Other Receivables category. I then did the same for the November 2018 balance sheet and the December 2018 balance sheet. Based on this analysis,

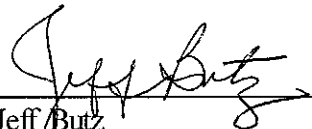
over \$31 million of the \$67 million that Debtors purported to deliver at Closing was in respect of the Open/Unidentified Items and Excluded categories. The only way that Debtors could have delivered \$37 million more than they promised to deliver in Annex 11 was by including the Open/Unidentified Items and Excluded categories in the tally of All Other Receivables. While the Debtors indicate that the All Other Receivables category increased by \$37 million from the end of November to the end of January, only \$6 million can be explained by changes in specific accounts included the All Other Receivables balance in the January 6 presentation and Annex 11. The remaining \$31 million increase can only be explained by inclusion of the Open/Unidentified Items and Excluded categories that were excluded from the January 6 presentation and Annex 11. See Exhibit C, attached hereto, which is a true and correct copy of the January accounts receivable analysis.

* * *

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of knowledge, information, and belief.

Executed on July 9, 2019 in Chicago, Ill.

Respectfully submitted,



Jeff Butz

Exhibit A



sears

SHOP
YOUR
WAY

CRAFTSMAN

DieHard



Preliminary Draft; Subject to Material Change

Remaining Value at SHC Estate in an ESL Transaction

January 6th, 2019

SEARS HOLDINGS

Executive Summary

- We have done a preliminary review of the remaining assets left behind for the SHC estate under ESL's going concern bid, which include the following:
 - Real Estate⁽¹⁾
 - Unencumbered Accounts Receivable ("AR")⁽²⁾
 - Cash-in-Advance ("CIA") Prepaid Inventory
 - Credit Card ("CC") Tort Claim⁽³⁾

Asset	Book Value ⁽⁴⁾	Estimated Collected Value	Recovery (%)
Real Estate ⁽¹⁾	\$155	\$155	100%
Unencumbered AR ⁽²⁾	376	164	44%
CIA Prepaid Inventory	171	171	100%
CC Tort Claim ⁽³⁾	35	35	100%
Total	\$737	\$525	71%

Note: Analysis excludes \$13mm insurance payment and \$15mm from First Data.

1) Assumes same valuation for Book Value and Estimated Collected Value.

2) Net recovery of ~44% on gross notional amount of ~\$376mm. The \$376mm gross total excludes a \$(39)mm offset allowance for bad debt; bad debt allowance is 100% included in net recovery of \$164mm.

3) Per estimate from Lazard and initial bids received. Assumes low end of \$35-50mm valuation range.

4) Book value represents the estimated market value for real estate and CC tort claims.

Real Estate: Preliminary Schedule of Real Estate Excluded from ESL Bid and Estimated Valuations

Estimates are preliminary, and subject to change

- **Our current gross value estimate for properties excluded from the ESL bid is approximately \$155mm**
 - Excluded Real Estate with Identifiable Value
 - Our \$155M estimate is informed by assuming the lesser of (1) current high offer value, (2) JLL appraised value and (3) BOV, where available
 - 99 of 433 properties have currently identifiable value
 - \$104M (67%) of value based on first round offers
 - Upside in these values lies in a couple of larger properties where current offer is considerably below appraised value or BOV
 - Downside in these values reflects the fact that offers are indicative and not committed
 - Downside risk mitigated by diversity of pool and low average price
 - Additional Excluded Properties
 - The remaining excluded properties (approximately 330) have no assumed value
 - Generally term is too short or rental rate too high for leases to have value
 - Approximately 150 of these are leases on the 142 and 40 GOB stores

Real Estate: Preliminary Schedule of Real Estate Excluded from ESL Bid and Estimated Valuations (cont'd)

Excluded Real Estate with Value

99

Count	Unit	RE ID	Name	St	Format
1	470	47000	MANTENO	IL	Other-ODFC
2	3793	379300	Miami	FL	Kmart
3	3699	369900	Apple Valley	CA	Kmart
4	1075	107500	Daytona Beach	FL	FLS
5	62500	6253800	JUSTIN	CA	UUP Sears Essentials/Grand
6	26731	2673100	Dublin	OH	UUP SAC Freestanding
7	2374	237400	Vineland	NJ	UUP FLS
8	2451	245100	Greeley	CO	UUP FLS
9	1353	135300	De Witt/Syracuse	NY	UUP FLS
10	3544	354400	Salem	VA	UUP Kmart
11	30920	3092000	Chicago	IL	UUP Kmart
12	61540	6154000	INDIANAPOLIS	IN	UUP FLS
13	61237	6123700	HOUSTON	TX	UUP FLS
14	30900	3090000	New Lenox	IL	UUP Kmart
15	1150	115000	Vreeland	OH	UUP FLS
16	7415	741500	Springfield	VA	Kmart
17	1810	181000	Northgate	OH	FLS
18	1251	125100	Uthoria	GA	UUP FLS
19	30981	3098100	Greensboro	NC	UUP Closed - RRC/RDC
20	1310	131000	Elyria	OH	UUP FLS
21	6253	625300	Covina	CA	UUP SAC Freestanding
22	7461	746100	Clarksville	TN	UUP Kmart
23	30981	3098100	GREENSBORO	NC	UUP Distribution/Warehouse
24	1863	186300	Johnstown	PA	UUP FLS
25	30941	3094100	Sauk Falls	SD	UUP Kmart
26	30916	3091600	Jackson	MI	UUP Kmart
27	26185	2618500	Clarksville	IN	UUP Kmart
28	1755	175500	Boynton Beach	FL	FLS
29	1475	147500	Durham	NC	FLS
30	1370	137000	Eastland	OH	UUP FLS
31	61510	6151000	Calumet City	IL	UUP FLS
32	6570	657000	Spokane	WA	Freestanding
33	30934	3093400	Memphis	TN	UUP Kmart
34	26987	2698700	Chicago	IL	UUP Vacant Land
35	30946	3094600	Natchez	MS	UUP Kmart
36	4810	481000	Metairie	LA	Kmart
37	31903	3190300	Fort Atkinson	WI	UUP Kmart
38	3413	341300	Kent	WA	Kmart
39	6874	687400	HOUSTON	TX	UUP SAC Deterred
40	1722	172200	Bloomington	WI	FLS
41	3256	325600	Baltimore	MD	Kmart
42	61106	6110600	Jackson	MS	UUP FLS
43	30957	3095700	Springdale	AR	UUP Kmart
44	2682	268200	Farview Hills	IL	Deterred
45	31900	3190000	Sterling	IL	UUP Kmart
46	68226	6822600	PHOENIX	AZ	UUP Petat Warehouse
47	9676	967600	Streetsboro	OH	UUP Kmart
48	443	44300	WILKES BARRE	PA	RRC
49	3527	352700	Philadelphia	PA	Kmart

1) Low Value assumes the lesser of current high offer, JLL appraisal value and BOV value, where available.

Real Estate: Preliminary Schedule of Real Estate Excluded from ESL Bid and Estimated Valuations (cont'd)

Excluded Real Estate with Value

99

Count	Unit	RE ID	Name	St	Format
50	8780	878000	Mrs Loma	CA	RSC
51	8731	873100	Chambersburg	PA	RSC
52	1041	104100	Omaha	NE	FLS
53	4893	489300	Ellerton	FL	Kmart
54	1514	151400	Niagara Falls	NY	UUP FLS
55	2940	294000	Franklin	OH	UUP FLS
56	26586	2658600	Memphis-Hickory	TN	UUP FLS
57	30901	3090100	Lansing	IL	UUP Kmart
58	7438	743800	Council Bluffs	IA	UUP SAC Freestanding
59	2936	293600	Chicago	IL	Detached
60	26717	2671700	Newport News	VA	UUP SAC Freestanding
61	1281	128100	Midwest City	OK	UUP FLS
62	6784	678400	Matteson	IL	Freestanding
63	26888	2688800	Chicago	IL	UUP Vacant Land
64	6488	648800	Mesa Verde	PR	UUP Vacant Land
65	2332	233200	San Antonio	TX	Freestanding
66	2001	200100	Piquis	OH	FLS
67	7915	791500	Eureka	CA	UUP Vacant Land
68	7915	791504	Eureka	CA	UUP Vacant Land
69	1130	113000	Janesville	WI	FLS
70	20327	2032700	Mecomb	IL	UUP Kmart
71	26588	2658800	Salem	OH	UUP FLS
72	3958	395800	Vasco	CA	UUP Vacant Land
73	9248	924800	Cheboygan	MI	UUP Kmart
74	1088	108800	Oreta Mesa	CA	FLS
75	6303	630300	BANCOR	ME	Retail Warehouse
76	4351	435100	Procheater	WI	Kmart
77	30958	3095800	EL CENTRO	CA	UUP Vacant Land
78	3075	307500	Peachtree City	GA	Kmart
79	3958	395800	Druid	CA	UUP Vacant Land
80	4480	448000	San Juan	PR	Kmart
81	1618	161800	Modesto	CA	FLS
82	2298	229800	Merced	CA	FLS
83	2323	232300	Hyannis	MA	FLS
84	9381	938100	Huntington	NY	Kmart
85	7471	747100	Placerville	CA	Kmart
86	2140	214000	Fort Charlotte	FL	FLS
87	37580	3758000	Washington Courthouse	OH	UUP Vacant Land
88	3251	325100	Indianapolis	IN	Kmart
89	3628	362800	Tolson	AZ	UUP Vacant Land
90	37614	3761400	Chicago	IL	Offices
91	3982	398200	Lemoore	CA	UUP Vacant Land
92	4721	472100	Coalinga	CA	UUP Vacant Land
93	1034	103400	Rose Park	PA	UUP FLS
94	1134	113400	Milford	CT	FLS
95	3838	383800	Cleveland	OH	UUP Vacant Land
96	2228	222800	Murfreesboro	TN	FLS
97	7087	708700	Fort Myers	FL	UUP Kmart
98	31930	3193000	HALEAH	HI	UUP Vacant Land
99	3982	398200	Lemoore	CA	Kmart

1) Low Value assumes the lesser of current high offer, JLL appraisal value and BOV value, where available.

Other Receivables: Preliminary Schedule and Estimated Recovery Value

(\$ in millions)

Book Entry #	Ledger Account Name	Gross Amount (\$)	Recovery (%)	Net Recovery (\$)	Description / Comments / Notes
11482	A/P Vendor Reclass Post	\$52.6	50%	\$26.3	Kmart vendor receivables (net debit reclassification, i.e. a positive receivable balance after all debits netted against all credits for vendors)
11488	Return Merchandise Receivable	59.9	50%	29.9	Sears vendor receivables (net debit reclassification, i.e. a positive receivable balance after all debits netted against all credits for vendors)
11300	Svc Contr 3rd Party Warranties	53.6	80%	42.9	Home Warranty Sales commission due from Cross Country over next 11 months
11390	A/R CUSTOMER RECEIVABLES	41.5	50%	20.8	\$34mm Monark (paid over time for big high end construction jobs; receive money when job is complete); \$4mm home warranty (paid in installments); \$3.5mm intercompany adjustment
11395	SHO Receivable Inv/PA/SPP	34.7	80%	27.8	Sears Hometown and Outlet; when items pulled out of a DC, receivable shows up; billed weekly, paid every 10 days
11364	Wholesale A/R Receivables	22.8	50%	11.4	KCD Business receivables; over \$8mm pertains to Amazon
11129	A/R NCC-OEM	10.3	50%	5.1	National Claims Center receivables (related to Home Services)
11300	Sears Home Improvement	8.0	50%	4.0	Sears Home Improvement - receivables related to contracts; paid over time but mostly at time of completion
11490	A/R PA INSTALLMENT	4.8	50%	2.4	Protection agreement installment receivables; generally over 11 months
11300	09987 SEARS ONE CARD CLEARANCE	6.3	90%	5.6	Financial services related; travel / debit card
11300	08500 FINANCE RELATED EXP	6.8	50%	3.4	Non-CIA vendors with net money due due status at Kmart
11300	Fulfillment, SC & Sourcing	7.2	50%	3.6	UPS Rebate received by Company every year at end of January or 1st of February
11368	CSI Receivable	0.0	50%	0.0	Vendor allowances; Kmart side only
11333	A/R CITI OTHER RECEIVABLES	5.8	90%	5.2	Other fees / receivables with Citi
11420	A/R WEX COMMERCIAL CREDIT	3.4	50%	1.7	Receivables related to companies that do business w/ Sears Auto
11475	A/R - Other Companies	3.5	50%	1.8	Service Live; pending jobs that will be paid when completed
11330	A/R NEW ACCOUNT BOUNTY	2.7	90%	2.5	Commission on new credit card accounts w/ Citi
11331	A/R CREDIT SALES REVENUE	2.5	90%	2.2	Fees from Citi when Sears credit card is used
11128	A/R NCC-AE	2.8	50%	1.4	National Claims Center receivables (related to Home Services)
11255	A/R - 3RD PARTY GIFT CARDS	4.8	50%	2.4	Receivables related to fees from third party gift cards (mainly Blackhawk)
11305	A/R LICENSED BUSINESSES	1.4	50%	0.7	SHIP-related receivables; normally paid when job is complete
11300	Parts Direct	2.3	50%	1.2	Parts Direct division related receivables
11365	A/R - Merchandise Allowance	2.1	50%	1.0	Vendor allowances; paid by invoice versus deduction from account
11367	A/R VENDOR ALLOWANCE - IMPORT	1.7	50%	0.9	Vendor allowances; paid by invoice versus deduction from account (for foreign vendors)
11140	A/R - Sub-Tenants	1.9	50%	0.9	Rent from sub-tenants at Kmart and Sears locations (mostly Sears)
11220	A/R - Coupons	1.0	50%	0.5	Paid within 21 days of coupon redemption from 3rd party coupon company (highly current as what stores don't submit is written off); netted against allowance / reserve
11252	A/R - Store Receivable	1.3	50%	0.7	Layaway; receivables related to payments required by customer over time before item is received
11256	WHY NOT LEASE IT RECEIVABLE	0.6	50%	0.3	Receivable from "Why Not Lease It", which provides third party credit to store customers on items; settles within 5 days
11131	A/R 3rd Party Retail Installat	0.6	50%	0.3	Home Services receivables
11253	ACCURED OVER/SHORTAGES	0.5	90%	0.4	Timing issue on cash counted in stores; overnight timing difference
11170	A/R - Freight Claims	0.5	50%	0.2	COD shipments with damage where SHC pays vendor upfront and then has to later collect from carrier
15340	A/R WU Wire Transfer Payout	0.2	90%	0.1	Western Union wires that go through treasury; settled daily
11335	A/R - WIC	0.2	75%	0.2	Food stamps; Reimbursement from state
11290	A/R - Loans and Advances	0.1	25%	0.0	Employee payroll advances
11300	Service Contracts PA	0.1	25%	0.0	Service Contracts division protection agreement installments
11250	A/R - Bad Checks	0.1	0%	-	Bounced checks; third party will chase down; netted against allowance / reserve
NA	All Other Receivables	30.0	0%	-	Miscellaneous; includes non-receivables and other potentially not recoverable items
11332	0% FINANCE (NETS 11330/1)	(4.8)	100%	(4.8)	Offset against Citi accounts (11330, 11331, 11333) to provide customers with 0% interest financing
A0112	Allowance for Bad Debt	(38.8)	100%	(38.8)	Allowance for Bad Debt
Total		\$337.3		\$164.4	

Note: Balance from Company as of 12/1/2018. Analysis excludes \$13mm insurance payment and \$15mm from First Data.

CIA Prepaid Inventory: Preliminary Schedule

Top 20 Non-Merchandise Vendors

(\$ in millions)

Duns #	Vendor Name	Total
395280		
114442648		
706893		
1200443		
518753		
41707563		
72818347		
22312628		
3155454		
1661222		
79695521		
714075		
37704855		
916152424		
80211920		
440768		
612757070		
33079757		
714531		
744342		
NA		
Total		\$23.6

Top 20 Merchandise Vendors

(\$ in millions)

Duns #	Vendor Name	Total
1288075		
1163823		
4196515		
613620		
348334		
116145681		
1902212		
3219367		
1029195471		
70094818		
4961041		
9138033		
9109273		
8029498		
134544		
95443321		
38204020		
2347102		
83922229		
1000471433		
NA		
Total		\$147.4

- CIA Prepaid Inventory represents inventory purchased under cash-in-advance payment terms that SHC has not yet received. The current balance is \$171mm

Note: Balance from Company as of 1/4/2019.

Exhibit B

[FILED UNDER
PENDING MOTION TO
SEAL]

Exhibit C

[FILED UNDER
PENDING MOTION TO
SEAL]